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Viewing cable 06SOFIA202, UNDER THE YOKE: BULGARIA'S DEPENDENCE ON RUSSIAN OIL AND GAS

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Reference ID	Created	Released	Classification	Origin
06SOFIA202	2006-02-08 11:57	2011-08-30 01:44	CONFIDENTIAL	Embassy Sofia

Appears in these articles:

<http://www.bivol.bg/wlbelene.html>

http://www.capital.bg/politika_i_ikonomika/bulgaria/2011/04/29/1082317_mrusna_energiia/

<http://wlcenral.org/node/1722>

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FM AMEMBASSY SOFIA
TO RUEHC/SECSTATE WASHDC 1401
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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 000202

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SUBJECT: UNDER THE YOKE: BULGARIA'S DEPENDENCE ON RUSSIAN OIL AND GAS

REF: A) SOFIA 190 B) 05 SOFIA 2063

¶1. (C) SUMMARY: Sixteen years after the dissolution of the Warsaw Pact, Bulgaria still finds itself under the Russian energy yoke. Bulgaria receives 88 percent of its natural gas from Gazprom or one of its sister companies, and 73 percent of its oil from Russia. As it awaits entry into the EU, Bulgaria still faces the fact that one country-supplier can control whether the lights stay on. Minister of Economy and Energy Rumen Ovcharov went to Moscow January 31 - February 1 to discuss the Belene Nuclear Plant, Burgas-Alexandropolous (B-A) oil pipeline, and gas prices with Russian Energy Minister Khristyenko. Upon return, he has publicly spoken about the prospect of an even larger Russian energy presence in Bulgaria if Russian firms are selected to build the proposed Belene Nuclear Power Plant. In a possible quid pro quo, he has also said Russia and Bulgaria have agreed that the current subsidized gas delivery contract with Gazprom -- which the Russian side had insisted on revising -- will continue unchanged for the time being. In addition, Ovcharov announced that Russia, Bulgaria and Greece will meet in Athens in March to discuss final details for the Burgas-Alexandropolous pipeline. The GOB, with its neighbors and soon-to-be EU partners, must come up with an energy policy that diversifies its supply of primary fuels, without burning any bridges to Russia, on which it will be dependent for years to come. END SUMMARY

GAS: GAZPROM CALLING THE SHOTS

¶2. (C) Gazprom's recent attempt to reopen the contract it negotiated in 1998 with Bulgaria has again highlighted Bulgaria's need for strategic energy planning (Ref B). Although Bulgaria drafted an energy policy in 2004 with the aim of diversifying its sources, scant attention had been paid to the issue until Gazprom's, New Years "surprises" here and in Ukraine.

¶3. (C) In 2005, Bulgaria consumed 3.47 billion cubic meters, of which 3 billion was imported from Russia. The remaining amount was produced domestically, from dwindling reserves. Bulgaria currently pays less than market prices for the portion -- 40-50 percent -- of the gas it receives from Gazprom in the form of transit fees for gas flowing to Turkey, Greece and Macedonia. The transit price was fixed in 1998 at USD 83/1000 cubic meter. Bulgaria claims that for the first few years of the contract, they lost USD 30 Million at that price. Once energy prices began to rise, though, Bulgaria began to enjoy the fruits of a contract that now seems very shrewd. The agreement is complex; but the current average price for all gas delivered to Bulgaria is approx. USD 160-170 vs. a market price of USD 258. In December, Gazprom began calling for renegotiation of the contract due to the escalation in natural gas prices. Gazprom said it would pay the transit fees in cash, and charge Bulgaria market rates for all gas deliveries.

¶4. (C) GOB officials and private analysts told us the sanctity of the 1998 contract could and should be respected. If the EU backed up Bulgaria, it would send a strong message to Russia not to meddle with previously agreed contracts. Nevertheless, Bulgarian leaders privately worry that they could "win the battle, but lose the war," as former Economy and Energy Minister Milko Kovachev told us. When the current contract runs out in 2010, Bulgaria will not only have to contend with a potentially stronger Gazprom, but could be faced with loss of revenue from its pipeline if Russia makes good on its threat to build an additional Blue Stream route in Turkey. GOB officials, including current Minister of Economy and Energy Rumen Ovcharov, have told us they take seriously the threat that Russia will go ahead with another Blue Stream route, which could leave Bulgaria holding an empty pipeline come 2010. This, more than any other piece of Russian gas leverage, has forced the GOB to assess its long-term strategic goals, rather than just seek short-term pricing advantages.

15. (U) Upon his return from the Moscow meetings, Ovcharov said Gazprom was pleased with Bulgaria for not slowing the supply of natural gas to neighboring countries, and that the current gas contracts will stay in place for the time being) a victory of sorts for Bulgaria. But he also said that the two sides discussed increasing the transit of natural gas, as well as the involvement of Gazprom and other Russian companies in various energy projects in Bulgaria. In a clear

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recognition of the unbalanced nature of the Bulgarian-Russian energy relationship, Ovcharov said that Bulgaria, as a small country, "cannot stand up to a giant like Gazprom" and discuss natural gas in isolation from other energy projects.

16. (C) Ovcharov told the press that in Russia the two sides discussed the option of jointly constructing an extension of the current gas pipeline grid and possible Gazprom participation in a future privatization of Bulgargaz, but this would not happen until after EU-mandated changes in the structure of Bulgargaz in 2007. These changes might help Bulgaria resolve its current gas and transit fee dilemma, but would lead to a much deeper reliance on Gazprom.

NABUCCO: BACK ON THE RADAR SCREEN

17. (C) The prospect of continued dependence on Gazprom has renewed Bulgaria's focus on a long-delayed alternative, the Nabucco pipeline. In 2005 Austria's OMV, Hungary's MOL, Romania's Transgas, Turkey's Botas, and Bulgaria's Bulgargaz signed a joint-venture agreement to establish Nabucco. Each of the partners would own a 20 percent stake. This pipeline would bring jobs, transit fees and, most importantly to Bulgaria, a non-Russian source of gas. However, it is still in the discussion stage. There are outstanding questions about where the gas would come from -- Iran, Azerbaijan, Turkmenistan, or other Caspian sources -- and whether Turkey would first purchase the gas and re-sell it to the pipeline, or allow it to transit through and just collect their own fees. The Bulgarians complain that Turkey wants to play a controlling role in both gas and oil supply, rather than remaining "just" a transit country. In fact, Turkey and Bulgaria can be seen as competitors in the gas/oil hub arena, although Turkey, closer to the sources and much larger, has an obvious advantage over Bulgaria.

18. (C) Ovcharov told us the earliest Nabucco will be on-line is 2011-12, and even then the most likely potential supplier) Iran) is not necessarily a more preferable partner than Russia. Ovcharov said this in the context of explaining why Bulgaria will need to improve its overall relationship with Gazprom for both current contracts and for other energy-sector projects. Nabucco, particularly with EU support, could help Bulgaria diversify away from Russian sources -- unless, of course, Gazprom purchases Bulgargaz.

OIL PIPELINES: B-A BACK IN PLAY

19. (U) There are currently two oil pipelines under consideration to run through Bulgaria: AMBO) an American-led consortium to carry oil of unspecified origin from Burgas, Bulgaria, through Macedonia and on to Vlore, Albania; and B-A, taking Russian oil from Burgas to Alexandropolous, Greece. The current Bulgarian government has not clearly indicated whether it will support one route over another, or allow the market to take over the process. Ovcharov, in remarks to Parliament on January 27, stated that B-A is at a more advanced stage of development than AMBO. Ovcharov said Russia and Bulgaria agree now is the time to move B-A into the implementation stage. Specifics will be discussed in a trilateral meeting in Athens in March. Interestingly, Gazprom will also take part in the construction of B-A, Ovcharov reported after his trip to

Moscow.

¶10. (C) However, we learned from Bulgaria's Minister of Regional Development, Asen Gagauzov, that Russia recently reneged on last year's three-nation agreement on equal ownership in a consortium to build B-A, and is now pushing for a 90 percent share, leaving Bulgaria and Greece with only 5 percent each. Gagauzov claimed Greece has already accepted the deal, and the GOB is ready to concede as long as it can be guaranteed ownership and control of the Universal Terminal Burgas (UTB)) the entry point for the oil. The GOB says it does not want to build two terminals, in case both AMBO and B-A are eventually built.

¶11. (C) American companies involved in B-A have told us privately that they are strongly opposed to the current structure of the UTB (the companies want the terminal to be part of the pipeline, not separate) and route, and would not participate under the current plan. However, if the GOB brought in an international investor, that could change the equation, XXXXXXXXXXXX told us. There are also questions about the players involved in UTB and their links to current and former high-ranking government

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officials. In the end, Amb. Beyrle has told Gagauzov and PM Stanishev that the GOB needed to work with the private sector regarding plans for UTB in order to get their buy-in. One risk here for Bulgaria is that if the government puts too many conditions on the structure of the project, it could chase investors to other routes through Romania or Turkey.

¶12. (C) Successful completion of B-A would give Bulgaria a more reliable supply of oil, and increase the government's revenues from transit fees. However, with such a large presence of Russian financing, construction and supply interests, it would not help Bulgaria diversify its energy sources.

AMBO MOVING SLOWLY

¶13. (C) There are conflicting views of whether AMBO is a viable project. Ovcharov told Parliament that it is possible if AMBO receives backing from a major power (i.e., the U.S.), along the lines of Baku-Ceyan. Others feel the length and cost of the project, not to mention the potential instability of Macedonia and Albania, make AMBO less attractive as a true Bosphorous bypass.

¶14. (C) Private sources have told us AMBO has not yet signed up the international suppliers necessary to finalize the project's financing. GOB energy officials told us AMBO has not been active for months) perhaps waiting to see how B-A gets moving. Curiously, this is an area where the EU might be more interested, former Energy Minister Kovachev told us, due to the potential to bring oil right to Italy's shores. AMBO, with US and/or EU participation, could diversify Bulgaria's energy supplies -) particularly if the oil comes from non-Russian (Kazakh) sources -- but there needs to be some external interest from the oil suppliers as well as a major governmental player for this to happen anytime soon.

COMMENT

¶15. (C) Bulgaria's leadership recognizes that their dependence on one energy supplier) even a historical friend like Russia) threatens its independence and prosperity. It is likely Gazprom's threat to cut off supplies was a ploy to get favorable concessions on other projects. Any move by the GOB to allow Gazprom to reach further into Bulgaria's energy market could ensure Bulgaria's gas supplies in the short term, but weaken the country's ability to resist further pressures from Gazprom and/or Russia. Bulgaria's

geographical position makes it a natural energy hub for Southeastern Europe, bringing oil and gas from the East to Europe and beyond, while continuing to export electricity to the immediate region. The strategic challenge for the Bulgarians is securing their hub position without mortgaging too much of their future to Gazprom and Russia.

Beyrle